

BANK AND TRUST DIVISION



Donald P. Mann,
Deputy Commissioner

William L. Pilkington,
Assistant Director,
Examination Unit

Darwyn V. Sanborn,
Assistant Director,
Corporate Regulatory
Services Unit

Carolyn E. Such,
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Allie Jones,
Examination Unit
Secretary

Steven D. Cutshaw,
Corporate Specialist

Linda K. Hansen,
Corporate Specialist

Sandra I. Slee,
Corporate Specialist

AUTHORITY

The Bank & Trust Division is primarily responsible for the regulation and supervision of Michigan's 133 state banks and two safe deposit companies under authority of Act 319 of the Public Acts of 1969 (the Michigan Banking Code of 1969), as amended; 5 state savings banks, pursuant to Act 354 of the Public Acts of 1996 (the Michigan Savings Bank Act); and 9 Business and Industrial Development Corporations (BIDCOs), pursuant to Act 89 of the Public Acts of 1986 (the Michigan BIDCO Act). The division's major focus is to ensure that financial institutions under its supervision satisfy the public need for financial services, and operate in a safe and sound manner.

PERSONNEL AND TRAINING

The division, headed by Deputy Commissioner Donald P. Mann, is comprised of a well trained, seasoned staff of professional examiners and office staff. Assistant Director William L. Pilkington oversees examination supervision activities, with a staff of five supervisors and 34 field examiners. Assistant Director Darwyn V. Sanborn oversees corporate activities, with a staff of three corporate specialists.

The Bureau has always had a firm commitment to training and professional development. Accordingly, division personnel at every level are provided training opportunities throughout the year. During 1998, every member of the division's staff attended at least one training and/or professional development class or seminar. Areas of training included Year 2000 (Y2K), trust, capital markets, lending, risk management, international banking, white collar crime, and emerging issues affecting community and multinational banking. Several division examiners have also attended graduate schools of banking held at various universities, including two examiners enrolled during 1998. Additionally, Regional Supervisor Gary Groves participated in the development and testing of a new bank examination system. The system, developed by the Federal Financial Institutions Examination Council (FFIEC), provides for a common examination format: the common format facilitates compatibility among state and federal agencies, and will serve to streamline and enhance the examination process.

On April 28, 1986, the division received recognition of its competence and capability when it became accredited under the Conference of State Bank Supervisors' (CSBS) Accreditation Program. The division was among the first state banking agencies in the nation to receive accreditation. The division was re-accredited on February 9, 1993, and again on June 8, 1998.

EXAMINATION AND SUPERVISION

The Michigan Banking Code of 1969 and the Michigan Savings Bank Act require that each state-chartered bank and savings bank receive an annual examination. In fulfilling this requirement, the Bureau may use an examination made pursuant to the Federal Reserve Act or the Federal Deposit Insurance Act. During 1998 all state-chartered banks, savings banks, and BIDCOs were examined at least once by either representatives of the division, the Federal Deposit Insurance Corporation, or the Federal Reserve Banks of Chicago or Minneapolis. The division also conducted 15 trust examinations, 6 off-site examinations, and made 25 on-site visitations. As of December 31, 1998, there was one bank on the division's "problem bank" list; no savings banks on the "problem" list; and one BIDCO on the "problem" list.

The Bank & Trust Division continued employing risk-based supervisory strategies in 1998. All banks were monitored quarterly through review of uniform bank performance reports, other call report generated information, and specifically requested data. New institutions, problem institutions, and institutions with volatile risk profiles received quarterly visitations.

Large and higher risk institutions were generally reviewed jointly or concurrently with the federal agencies. Regardless of the nature of the examination, examination results were shared between agencies and comprehensive supervisory strategies were jointly developed and employed.

Pre-examination request letters were tailored to information needs determined by the Examiner-In-Charge in assessing each institution's risk profile. At the conclusion of each examination, examiners met with senior management to review findings. As necessary or requested, division management and examiners-in-charge met with Boards of Directors to review examination

findings and determine appropriate management action.

On April 9, 1998, OmniBank, River Rouge, Michigan was closed by the commissioner and the Federal Deposit Insurance Corporation (FDIC) was named receiver. The FDIC subsequently approved the assumption of the deposits and the purchase of some of the assets of the former bank by the newly state-chartered ShoreBank, Detroit. ShoreBank, Detroit assumed \$39.9 million in deposits and acquired \$41.8 million in assets. OmniBank had total assets of \$42.2 million as of January 9, 1998. The remaining assets were retained for later disposition by the receivership. There was no loss to depositors as a result of this action.

Section 24 of the Federal Deposit Insurance Act was revised in 1998. This revision streamlined the process for state banks to engage in a variety of activities including real estate, securities, and some insurance activities. The streamlined process and the ability of the commissioner to promulgate rules authorizing banks and savings banks to exercise powers that promote competition pursuant to the banking code and the savings bank act has allowed banks to efficiently engage in profitable activities outside of traditional core bank activities.

YEAR 2000

The division, in cooperation with the FDIC and Federal Reserve Banks of Chicago and Minneapolis, is engaged in assessing the preparedness of Michigan's state-chartered banks, savings banks, safe deposit companies and BIDCOs.

Under the auspices of the FFIEC, guidelines have been established for Y2K preparedness for all financial institutions throughout the country. Phase I, beginning September 30, 1997 and ending June 30, 1998, involved identifying and

prioritizing mission critical systems. Phase I assessments of all Michigan state-chartered banks and savings banks were completed by representatives of the FDIC or Federal Reserve Banks of Chicago and Minneapolis. Assessments of state-chartered BIDCOs and safe deposit box companies were conducted by Division personnel. All institutions were found to be satisfactorily preparing for the century date change.

Phase II, beginning July 1, 1998 and ending June 30, 1999 requires institutions to implement a customer due diligence program, complete development of written Y2K testing strategies, complete a customer impact assessment, develop contingency plans, and begin testing mission critical systems. Phase II requires that all financial institutions be examined to assess Phase II preparedness by March 31, 1999. Between April 1 and June 30, 1999 institutions receiving a less than satisfactory assessment will be placed under a supervisory action, and receive additional supervision to insure Y2K preparedness. As part of regular supervisory efforts, the Division will conduct Phase II assessments during all independent examinations between October 1, 1998 and March 31, 1999.

In addition to on-site Y2K examinations, division personnel have participated in periodic meetings held with representatives of the FDIC, Federal Reserve Bank of Chicago and the Comptroller of the Currency to discuss Y2K initiatives. As the century date change approaches, meetings of this type will continue to be held to discuss Y2K issues, examination progress, areas of regulatory concern and regulatory agency contingency planning.

CORPORATE CHANGES

COMMERCIAL BANKS

As of December 31, 1998, there were 169 commercial banks operating in the State of

Michigan; 133 or 78.7% of which were state-chartered banks. During 1998, nine new banks were chartered, and one national banking association converted to state-charter. For the first time since 1982 the number of state-chartered commercial banks at year-end was greater than the number at the beginning of the year.

SAVINGS BANKS

There were 24 savings banks operating in Michigan as of December 31, 1998; five, or 20.8% were state-chartered.

FINANCIAL TRENDS

COMMERCIAL BANKS

As of year-end 1998, state-chartered commercial banks posted total consolidated assets of \$99.6 billion, representing a 14.2% increase over year-end 1997 totals. Michigan's commercial banks continue to benefit from prudent management and a strong economic environment. State-chartered banks' return on assets compare very favorably with the national average. As of year-end 1998 net consolidated income for state-chartered commercial banks amounted to \$1.4 billion, a 13.9% increase over year-end 1997 totals. The aggregate return on average assets for state-chartered commercial banks was 1.48%.

Aggregate equity capital in Michigan's state-chartered banks amounted to \$8.3 billion. This represents an 11.3% increase over year-end 1997 totals for commercial banks.

SAVINGS BANKS

State-chartered savings banks posted total consolidated assets of \$2.9 billion, representing a 6.3% increase. They reported an aggregate net income of \$31 million for 1998, representing a 10.7% increase over year-end 1997 totals. The aggregate return on average assets for savings

banks was 1.11%. Savings bank equity was \$235 million at year-end 1998, an increase of 2.6% over prior year totals.

BIDCOS

As of December 31, 1998, BIDCOs posted total consolidated assets of \$79.2 million, representing a 10.5% increase from year-end 1997 totals. There were 185 total provisions of financing assistance outstanding at year-end 1998, reflecting a 15.6% increase over year-end 1997 totals.

INDUSTRY ASSOCIATION

The division has had a long standing relationship with various trade associations, including the Michigan Bankers Association (MBA), the Michigan Association of Community Bankers (MACB), the Michigan League of Community Bankers (Michigan League) and the Conference of State Bank Supervisors (CSBS). Division personnel have attended numerous industry-related functions during 1998. Division representatives have also spoken at various trade association functions on a variety of topics affecting the industry, including presentations at the Robert M. Perry Schools of Banking at Central Michigan University. Additionally, division personnel, along with senior Bureau management regularly attend the MBA annual convention and bank management conference; the MACB annual convention; the Michigan League annual convention; and the CSBS annual meeting and deputy seminars.

LOOKING FORWARD

During 1999, the division will continue to provide the highest quality service to the industries we regulate. Division personnel are executing plans for risk-based supervision in 1999 and beyond. The alternating examination program will continue and traditional safety and soundness

examinations will be streamlined for well performing, sound financial institutions.

In 1999, substantial resources will be devoted to Y2K. Examiners will be evaluating each institution's progress in preparing for Y2K. As the century date change approaches and for a brief time after, field staff will significantly increase their contact with financial institution managers to monitor the effects of Y2K dynamics.

Every bank, trust department, savings bank, and BIDCO has been assigned to individual examiners. These examiners, called Central Points of Contact (CPC) will be responsible for coordinating the regulatory oversight of a portfolio of two to eight institutions. Managers of financial institutions regulated by the division should familiarize themselves with the CPC of their institution. The CPC concept will provide directors and officers a consistent and familiar regulatory contact responsible for designing a regulatory strategy based on the risk profile of their institution.

Examiners and financial institutions will continue to benefit from a greater use of technology. The division, Federal Reserve Banks, and the FDIC have migrated to a common bank examination platform. The examination program, known as the GENeral Examination SYStem (Genesys), is fully integrated with existing data sources and will significantly reduce report preparation time. Field testing of Genesys will begin in 1999 and Genesys should be fully operational no later than 2000. In addition to Genesys, division personnel have developed an electronic book of knowledge for all banks, savings banks, and BIDCOs.

INTERNET ACCESS

Further information regarding division services may be found on the Bureau's internet site at <http://www.cis.state.mi.us/fib/>.

CONSOLIDATED BALANCE SHEET OF STATE BANKS

AS OF DECEMBER 31 (IN MILLIONS)

	133 Banks December 31, 1998	127 Banks December 31, 1997	Percentage Increase (Decrease)
ASSETS			
Cash and balances due from depository institutions	\$ 5,395	\$ 4,585	17.67%
Securities	14,280	12,049	18.52%
Federal funds sold and securities purchased under agreements to resell	1,541	1,964	(21.54%)
Net loans and leases	72,785	64,532	12.79%
Assets held in trading accounts	498	106	369.81%
Premises and fixed assets (including capitalized leases)	1,295	1,131	14.50%
Other real estate owned	43	41	4.88%
Investments in unconsolidated subsidiaries and associated companies	57	2	27,500.00%
Customers' liability on acceptances executed and outstanding	24	47	(48.94%)
Intangible assets	975	611	59.57%
Other assets	2,666	2,098	27.07%
Total Assets	\$ 99,559	\$ 87,166	14.22%
LIABILITIES			
Total deposits	\$ 73,732	\$ 61,580	19.73%
Federal funds purchased and securities sold under agreements to repurchase	7,204	2,660	170.83%
Demand notes issued to the U.S. Treasury	525	2,356	(77.72%)
Other borrowed money, including mortgage indebtedness and obligations under capitalized leases	6,796	10,145	(30.01%)
Bank's liability on acceptances executed and outstanding	24	47	(48.94%)
Notes and debentures subordinated to deposits	1,811	1,591	13.83%
Other liabilities	1,213	1,368	(11.33%)
Total Liabilities	\$ 91,305	\$ 79,747	14.49%
EQUITY CAPITAL			
Perpetual preferred stock	\$ 5	\$ 5	N/C
Common stock	475	413	15.01%
Surplus	3,261	2,740	19.01%
Undivided profits and capital reserves	4,513	4,261	5.91%
Total Equity Capital	\$ 8,254	\$ 7,419	11.25%
Total Liabilities and Equity Capital	\$ 99,559	\$ 87,166	14.22%

CONSOLIDATED STATEMENT OF INCOME OF STATE BANKS

YEAR ENDED DECEMBER 31 (IN MILLIONS)

SOURCES AND DISPOSITION OF INCOME

	1998	1997	Percentage Increase (Decrease)
INTEREST INCOME:			
Interest and fee income on loans	\$ 5,803	\$ 5,403	7.40%
Interest from lease financing receivables	157	141	11.35%
Interest income on balances due from depository institutions	8	12	(33.33%)
Interest and dividend income on securities	919	846	8.63%
Interest income from assets held in trading accounts	2	2	N/C
Interest income on federal funds sold and securities purchased under agreements to resell	91	79	15.19%
Total interest income	\$ 6,980	\$ 6,483	7.67%

INTEREST EXPENSES:

Interest on deposits	\$ 2,328	\$ 2,112	10.23%
Expense of federal funds purchased and securities sold under agreements to repurchase	286	213	34.27%
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	505	581	(13.08%)
Interest on mortgage indebtedness and obligations under capitalized leases	0	0	N/C
Interest on notes and debentures subordinated to deposits	95	93	2.15%
Total interest expense	\$ 3,214	\$ 2,999	7.17%
Net interest income	\$ 3,766	\$ 3,484	8.09%
LESS: Provision for loan and lease losses	253	308	(17.85%)
Noninterest income	1,902	1,497	27.05%
Gains (losses) on securities not held in trading accounts	25	26	(3.85%)

NONINTEREST EXPENSES

Salaries and employee benefits	\$ 1,588	\$ 1,394	13.92%
Expenses on premises and fixed assets (net of rental income) (excluding salaries and employee benefits and mortgage interest)	424	365	16.16%
Other noninterest expense	1,341	1,103	21.58%
Total noninterest expense	\$ 3,353	\$ 2,862	17.16%
Income (loss) before income taxes and extraordinary items and other adjustments	\$ 2,087	\$ 1,837	13.61%
LESS: Applicable income taxes	697	617	12.97%
Income (loss) before extraordinary items and other adjustments	1,390	1,220	13.93%
Extraordinary items (net of taxes)	0	0	N/C
Net income	\$ 1,390	\$ 1,220	13.93%

CONSOLIDATED BALANCE SHEET OF STATE SAVINGS BANKS AS OF DECEMBER 31 (IN MILLIONS)

	5 Savings Banks December 31, 1998	5 Savings Banks December 31, 1997	Percentage Increase (Decrease)
ASSETS			
Cash and balances due from depository institutions	\$ 100	\$ 90	11.11%
Securities	193	182	6.04%
Federal funds sold and securities purchased under agreements to resell	0	1	(100.00%)
Net loans and leases	2,487	2,346	6.01%
Assets held in trading accounts	0	0	N/C
Premises and fixed assets (including capitalized leases)	45	42	7.14%
Other real estate owned	2	2	N/C
Investments in unconsolidated subsidiaries and associated companies	0	0	N/C
Customers' liability on acceptances executed and outstanding	0	0	N/C
Intangible assets	19	17	11.76%
Other assets	26	22	18.18%
Total Assets	\$2,872	\$ 2,702	6.29%
LIABILITIES			
Total deposits	\$ 2,116	\$ 1,971	7.36%
Federal funds purchased and securities sold under agreements to repurchase	2	0	200.00%
Demand notes issued to the U.S. Treasury	0	0	N/C
Other borrowed money, including mortgage indebtedness and obligations under capitalized leases	497	480	3.54%
Bank's liability on acceptances executed and outstanding	0	0	N/C
Notes and debentures subordinated to deposits	0	0	N/C
Other liabilities	22	22	N/C
Total Liabilities	\$ 2,637	\$ 2,473	6.63%
EQUITY CAPITAL			
Perpetual preferred stock	\$ 0	\$ 0	N/C
Common stock	1	1	N/C
Surplus	118	105	12.38%
Undivided profits and capital reserves	116	123	(5.69%)
Total Equity Capital	\$ 235	\$ 229	2.62%
Total Liabilities and Equity Capital	\$ 2,872	\$ 2,702	6.29%

CONSOLIDATED STATEMENT OF INCOME OF STATE SAVINGS BANKS AS OF DECEMBER 31 (IN MILLIONS)

SOURCES AND DISPOSITION OF INCOME

	1998	1997	Percentage Increase (Decrease)
INTEREST INCOME:			
Interest and fee income on loans	\$ 195	\$ 186	4.84%
Interest from lease financing receivables	0	0	N/C
Interest income on balances due from depository institutions	3	2	50.00%
Interest and dividend income on securities	12	12	N/C
Interest income from assets held in trading accounts	0	0	N/C
Interest income on federal funds sold and securities purchased under agreements to resell	0	0	N/C
Total interest income	\$210	\$ 200	5.00%
INTEREST EXPENSES:			
Interest on deposits	\$ 91	\$ 87	4.60%
Expense of federal funds purchased and securities sold under agreements to repurchase	0	0	N/C
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	28	28	N/C
Interest on mortgage indebtedness and obligations under capitalized leases	0	0	N/C
Interest on notes and debentures subordinated to deposits	0	0	N/C
Total interest expense	\$ 119	\$ 115	3.48%
Net interest income	\$ 91	\$ 85	7.06%
LESS: Provision for loan and lease losses	3	2	50.00%
Noninterest income	29	17	70.59%
Gains (losses) on securities not held in trading accounts	7	0	700.00%
NONINTEREST EXPENSES			
Salaries and employee benefits	\$ 35	\$ 30	16.67%
Expenses on premises and fixed assets (net of rental income) (excluding salaries and employee benefits and mortgage interest)	10	9	11.11%
Other noninterest expense	31	19	63.16%
Total noninterest expense	\$ 76	\$ 58	31.03%
Income (loss) before income taxes and extraordinary items and other adjustments	\$ 48	\$ 42	14.29%
LESS: Applicable income taxes	17	14	21.43%
Income (loss) before extraordinary items and other adjustments	31	28	10.71%
Extraordinary items (net of taxes)	0	0	N/C
Net income	\$ 31	\$ 28	10.71%

BUSINESS AND INDUSTRIAL DEVELOPMENT CORPORATIONS (BIDCOs)

	12/31/98	12/31/97
Licensees	8	9
Licensees Examined	8	9
Provisions of financing assistance to agriculture firms	0	0
Financing assistance to agriculture firms	0	0
Provisions of financing assistance to mining firms	0	1
Financing assistance to mining firms	0	\$1,000,000
Provisions of financing assistance to construction businesses	0	7
Financing assistance to construction businesses		\$2,310,000
Provisions of financing assistance to manufacturing businesses	19	10
Financing assistance to manufacturing businesses	\$7,206,264	\$4,053,838
Provisions of financing assistance to transportation, communication, electricity, gas, and sanitary services businesses	0	1
Financing assistance to transportation, communication, electricity, gas, and sanitary services businesses	0	\$500,000
Provisions of financing assistance to wholesale trade businesses	3	4
Financing assistance to wholesale trade businesses	\$1,700,000	\$1,450,000
Provisions of financing assistance to retail trade businesses	3	5
Financing assistance to retail trade businesses	\$720,000	\$2,385,873
Provisions of financing assistance to finance, insurance and real estate businesses	2	1
Financing assistance to finance, insurance, and real estate businesses	\$1,300,000	\$700,000
Provisions of financing assistance to service businesses	12	16
Financing assistance to service businesses	\$7,635,000	\$6,271,183
Provisions of financing assistance to nonclassifiable establishments	1	1
Financing assistance to nonclassifiable establishments	\$328,000	\$120,000
Total financings for period	40	46
Total financing assistance for the period	\$18,889,264	\$18,790,894
Total provisions of financing assistance currently outstanding or committed	185	160
Total financing assistance currently outstanding	\$72,590,520	\$54,610,311
Provisions of financing assistance to minority-owned business firms	2	5
Financing assistance to minority-owned business firms	\$1,450,000	\$765,000
Provisions of financing assistance to women-owned business firms	0	4
Financing assistance to women-owned business firms	0	\$1,166,250
Estimated number of jobs created or retained *	1,184	677

* Estimates provided by licensees.

1998 BANK AND TRUST DIVISION

REGIONS AND FIELD PERSONNEL

EAST REGION

Gary L. Thielsen, Regional Supervisor

Thomas J. Battle	Shelley L. McCarthy
Kathleen M. Billmeier	Kevin J. Pantera
James H. Brown II	Susan A. Stieber
C. Terry Callahan	Chris Werwega
Roger A. Lonsway	Joanne C. West

CENTRAL REGION

Curtis B. McMillin, Regional Supervisor

Robert G. Caruso	Karen K. Lawson
Gail A. Donovan	Patrick J. Lynch
Patrick A. Holleran	Kathleen M. McDevitt
Kirt L. Gundry	Charles J. Scott
John J. Kolhoff	

WEST REGION

Stephen F. Trembath, Regional Supervisor

Rae L. Farris	Michael E. Mead
Connie Gorsline	Bruce Ohland
Donald J. Hermann	Peter R. Oquist
Karl J. Johnson	Judy I. Ritter
Charlie L. Kohler	Sheila J. Vigh

UPPER PENINSULA REGION

Gary D. Groves, Regional Supervisor

John M. Lyle
Linda S. Osstyn
David J. Theoret

TRUST ACTIVITIES UNIT

Michael J. Anderson, Supervisor

Walter P. Baier
Michael J. Friedrich